

Message Text

CONFIDENTIAL

PAGE 01 BRASIL 05058 01 OF 05 101228Z

41

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W

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P 101145Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4373

C O N F I D E N T I A L SECTION 1 OF 5 BRASILIA 5058

EXDIS

E. O. 11652: N/A

TAGS: ETRD, BR

SUBJECT: BRAZILIAN REACTIONS TO IMPOSITION OF
COUNTERVAILING DUTIES

SUMMARY: WITH THE IMPORTANT EXCEPTION OF THE FINANCE MINISTRY, (WHICH IS APPROACHING THE COUNTERVAILING DUTY ISSUE AS A TECHNICAL MATTER TO BE RESOLVED PRAGMATICALLY), THE PRINCIPAL AGENCIES OF THE GOB, INCLUDING, NOTABLY, THE PRESIDENT HIMSELF, ARE INTENT UPON PLACING THE MATTER ON THE "POLITICAL" PLANE, IN THE HOPE THAT THE USG, IN THE INTEREST OF THE BROAD BILATERAL RELATIONSHIPS, WOULD STAY ITS HAND. FEARFUL OF A BROAD-SCALE ATTACK ON BRAZILIAN EXPORTS AND UNEASY ABOUT THE CURRENT DIFFICULTIES FACED BY THE BRAZILIAN ECONOMY, THE GOB HAS BELIEVED THAT THE "SPECIAL" BRAZILIAN-US TIES WOULD OPERATE TO FORESTALL THE IMPOSITION OF DUTIES. THIS BELIEF HAS BEEN STRENGTHENED BY THE LANGUAGE OF THE "NEW DIALOGUE" AND ESPECIALLY BY THE GOB CONFIDENCE IN SECRETARY KISSINGER'S STRENGTH, PRESTIGE, INFLUENCE AND POLITICAL SENSITIVITY. FROM THS PERSPECTIVE OF THE CURRENT US-BRAZILIAN RELATIONSHIP AND REALIZING THE IMPORTANT US ECONOMIC STAKE IN BRAZIL, THE GOB LOOKS FOR THE EXERCISE BY THE USG OF "POLITICAL WILL."

WHEN IT BECOMES CONVINCED THAT ITS PURSUIT OF THE "POLITICAL" SOLUTION HAS REACHED A DEAD END, THE GOB MAY TRY TO AVOID APPLICATION OF THE DUTIES BY MAKING A FIRM OFFIER TO SUBMIT LEGISLATION REVISING THE INCENTIVES REGIME, WITH THE EFFECTIVE DATE SUBJECT TO NEGOTIATION. IF THIS

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 05058 01 OF 05 101228Z

OFFER IS NOT MADE OR DOES NOT PROSPER AND DUTIES ARE

IMPOSED, THE IMMEDIATE REACTIONS HERE WOULD BE SHARP. THEY WOULD ENCOMPASS: RETALIATION AGAINST OUR ECONOMIC INTERESTS, PRINCIPALLY OUR TRADE; A DEFINITE COOLNESS FOR SOME TIME IN OUR BROAD POLITICAL RELATIONS; SERIOUS QUESTIONING OF THE SINCERITY AND REALISM OF THE "NEW DIALOGUE," BUT NO RPT NO WITHDRAWAL FROM THE DIALOGUE; AND SHARP CRITICISM OF US IN INTERNATIONAL ECONOMIC FORUMS. ONE OF THE MOST NEGATIVE SHORT-TERM EFFECTS WILL BE BRAZILIAN DISAPPOINTMENT IN SECRETARY KISSINGER'S INABILITY TO CARRY THE DAY. IN SUM, THE REACTIONS WILL BE COSTLY TO OUR ECONOMIC AND POLITICAL INTERESTS BUT NOT SO SERIOUS AS TO BE DANGEROUSLY IRREVERSIBLE.

THEIR SEVERITY CAN BE ALLAYED BY A LOW RATE OF DUTY, I.E., LESS THAN TEN PER CENT; THE AVOIDANCE OF A SERIES OF FOLLOW-ON COMPLAINTS AND COUNTERVAILING ACTIONS AGAINST OTHER BRAZILIAN EXPORTS; THE PACKAGING OF ACTION AGAINST BRAZIL WITH ACTION AGAINST OTHER SHOE EXPORTERS; AND AN ANNOUNCEMENT OF THE COUNTERVAILING ACTION THAT HAS SOME ASSUAGING EFFECT.

ACTION REQUESTED: (1) A PROMPT DETERMINATION WHETHER A FIRM BRAZILIAN OFFER TO SUBMIT LEGISLATION MODIFYING THE INCENTIVES REGIME HOLDS PROMISE AS A MEANS OF AVOIDING THE APPLICATION OF COUNTERVAILING DUTIES; AND (2) IF THE DETERMINATION IS NEGATIVE, THE ADOPTION OF THE MITIGATING MEASURES OUTLINED IN THE PRECIDIING PARA. END SUMMARY.

1. THE COMMENTS BELOW ARE BASED ON THE ASSUMPTIONS THAT THE IMPOSITION OF COUNTERVAILING DUTIES ON BRAZILIAN SHOE EXPORTS IS INEVITABLE AND THAT THE DUTIES, THE LEVEL OF WHICH IS STILL TO BE DETERMINED, WILL BE ANNOUNCED ON OR ABOUT AUGUST 1. IMPLICIT IN THESE ASSUMPTIONS ARE THE FAILURE OF THE CURRENT INTENSE EFFORT BY THE GOB TO RAISE THE MATTER TO THE "POLITICAL" PLANE AND THE PROBABLE UNACCEPTABILITY OR irrelevance OF A GOB SUBMISSION, PRIOR TO THE USG ANNOUNCEMENT, OF LEGISLATION REVISING THE EXPORT INCENTIVE SYSTEM TO MAKE IT "GATT-ABLE".

2. THE PURPOSE OF THIS MESSAGE IS TO ESTIMATE, IN THE LIGHT OF THE FOREGOING ASSUMPTIONS, THE REACTIONS IN BRAZIL
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 05058 01 OF 05 101228Z

AND, MORE IMPORTANTLY IN THIS SOCIETY, WITHIN HIGH LEVELS OF THE GOB, TO THE APPLICATION OF THE DUTIES. THESE REACTIONS WILL AFFECT US POLITICAL AND ECONOMIC INTERESTS BUT THE SCOPE, INTENSITY AND DURABILITY OF THESE REACTIONS WILL BE DETERMINED BY THE STILL UNKNOWN ANSWERS TO A NUMBER OF QUESTIONS. HERE I REFER PRIMARILY TO THE QUESTION OF THE LEVEL FINALLY CHOSEN FOR THE DUTIES; THE QUESTION OF THE POSSIBLE APPLICATION OF DUTIES TO SHOE EXPORTS FROM

ARGENTINA AND SPAIN SIMULTANEOUSLY WITH APPLICATION OF DUTIES TO BRAZILIAN EXPORTS; THE QUESTION OF THE TONE OF THE ANNOUNCEMENT OF THE APPLICATION; AND, IN A LONGER TERM, THE QUESTION OF THE EXPLOITATION OF THE DECISION TO COUNTERVAIL BY OTHER US INDUSTRIES RESENTFUL OF BRAZILIAN COMPETITION IN A RANGE OF MANUFACTURES.

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 BRASIL 05058 02 OF 05 101304Z

42

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
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P 101145Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4374

C O N F I D E N T I A L SECTION 2 OF 5 BRASILIA 5058

EXDIS

3. BEFORE GOING INTO SOME OF THE BACKGROUND AGAINST WHICH THE PRESENT SITUATION SHOULD BE ASSESSED, I WANT TO DEFINE WHAT I MEAN BY THE GOB WHEN I USE THAT TERM BELOW. IT INCLUDES THE PRESIDENT, THE PRESIDENCY (NOTABLY THE CHIEF OF THE CIVIL HOUSEHOLD, RETIRED GENERAL GOLBERY, WHO, IT WILL BE RECALLED, WAS INDIGNANT ABOUT THE ISSUE EVEN BEFORE HE ASSUMED HIS VERY IMPORTANT POSITION), THE FOREIGN MINISTER, THE MINISTER OF INDUSTRY AND COMMERCE, AND THE MINISTER OF PLANNING. THESE, I BELIEVE, ARE THE PRINCIPAL HARD-LINING ELEMENTS ON THE SHOE ISSUE. IT DOES NOT RPT NOT INCLUDE THE MINISTER OF FINANCE AND HIS STAFF, WHO TEND TO BE MORE "TECHNICAL" OR PRAGMATIC AND LESS "POLITICAL" ON THE COUNTERVAILING DUTIES QUESTION THAN THE OTHER INTERESTED AGENCIES. WE HAVE SEEN SIGNS OF CONFLICT AND FRICTION BETWEEN THE "POLITICALS" AND THE MINISTRY OF FINANCE, AND IT IS THE "TECHNICAL" APPROACH BY THE FINANCE PEOPLE THAT HAS BEEN CRITICIZED BY FOREIGN MINISTER SILVEIRA TO ME. SILVEIRA TAKES THE POSITION--AS DID GIBSON BARBOSA BEFORE HIM-- THAT THE BRAZILIAN "TECHNICIANS" HAVE AHANDED THE MATTER BADLY FROM THE BEGINNING. IT SHOULD BE NOTED CAREFULLY THAT THERE IS EVERY REASON TO BELIEVE THAT PRESIDENT GEISEL HIMSELF HAS BEEN--AND WILL CONTINUE TO

BE--DIRECTLY INVOLVED IN THE PREPARATION OF GOB STRATEGY
ON THE ISSUE AND ITS PLAY-OUT. IT SHOULD ALSO BE NOTED
THAT SOME OF THE IMPORTANT SHOTS ARE NOT BEING CALLED BY
THE FOREIGN MINISTRY. WHEN I TAXED SILVEIRA WITH THE TONE
OF THE JUNE 25 NOTE GIVEN THE EMBASSY AND COMMENTED
THAT THE "EMOTIONALISM" THAT HE FEARED WOULD ARISE IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 05058 02 OF 05 101304Z

THE EVENT DUTIES WERE IMPOSED SEEMED TO ME TO BE MORE
PREVALENT IN THE GOVERNMENT THAN IN THE SHOE INDUSTRY
(BRASILIA 4725), HE REPLIED THAT THE NOTE OF JUNE 25 WAS
NOT "HIS," INDICATING THAT IT HAD BEEN GIVEN HIM. I DEDUCE FROM
THIS THAT, WHETHER THE NOTE WAS PREPARED IN THE PRESIDENCY
ITSELF OR IN ONE OF THE OTHER HAWKISH MINISTRIES, IT
ALMOST CERTAINLY WAS DELIVERED AT THE PRESIDENT'S DIRECTION.
(SILVEIRA, INCIDENTALLY, ALSO STATED THAT, IF I THOUGHT
THAT BRASILIA WAS EMOTIONAL, AMBASSADOR ARAUJO CASTRO WAS
REALLY WORKED UP--IN ORBIT--SO MUCH SO THAT HE HAD BEEN
INSTRUCTED TO STOP TALKING TO THE WASHINGTON AUTHORITIES.)

4. BY WAY OF BACKGROUND, IT IS WORTH RECALLING THAT THE
PRESENT STATE OF AGITATION WITHIN THE GOB ON THIS ISSUE
HAS BEEN BUILDING UP FOR SOME TIME. ALTHOUGH THE IMPACT,
POLITICALLY AND SOCIALLY, ON THE SHOE INDUSTRY HAS BEEN AN
IMMEDIATE GOB CONCERN, THE UNDERLYING FEAR HAS BEEN THAT,
WHETHER AS A RESULT OF USG DESIGN, OR THE INDEPENDENT
ACTIONS OF US MANUFACTURERS TO TAKE ADVANTAGE OF THE LAW
TO MOVE AGAINST A RANGE OF BRAZILIAN EXPORTS TO THE US,
THE GROWTH OF BRAZILIAN EXPORTS TO THE US MARKET WOULD
BE SIFLED. THIS PROSPECT, ALREADY SERIOUS TO THE GOB
BECAUSE OF THE DEPENDENCE OF ITS GROWTH POLICIES ON EX-
PANDING EXPORTS, HAS BECOME EVEN MORE ALARMING IN THE PAST
FEW MONTHS AS THE ECONOMY HAS BEGUN TO RUN INTO DIF-
FICULTIES. NOT ONLY HAS THERE ARisen A CERTAIN AMOUNT OF
ANXIETY OF A PURELY ECONOMIC SORT BUT, PERHAPS MORE SIGNIFI-
CANT, THE GOB HAS ALSO BETRAYED, IT SEEMS TO ME, A CERTAIN
AMOUNT OF JITTERINESS, A CERTAIN LOSS OF PSYCHOLOGICAL
POISE IN ADDRESSING THE PROBLEMS OF THE ECONOMY. THIS IS
ATTRIBUTABLE IN PART TO THE CONSENSUS IN BRAZILIAN CIRCLES
(REFLECTED IN PAST EMBASSY REPORTING) THAT THE VIABILITY
OF THE REVOLUTION IS ESSENTIALLY DEPENDENT ON CONTINUED
ECONOMIC SUCCESS AND THAT WHAT THREATENS ECONOMIC GROWTH
THREATENS THE POLITICAL INSTITUTIONS OF THE REVOLUTION. (I
DO NOT INTEND THIS AS A DESCRIPTION OF A POTENTIAL
SCENARIO BUT RATHER TO MAKE CLEAR THE PSYCHOLOGICAL
TERMS OF REFERENCE.)

5. ALTHOUGH THIS PERSISTENT FEAR OF A BROAD-SCALE US
ATTACK ON BRAZILIAN EXPORTS, INTENSIFIED BY CURRENT ECONOMIC
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 05058 02 OF 05 101304Z

AND PSYCHOLOGICAL UNCERTAINTY, GOES VERY FAR BY ITSELF TO EXPLAIN THE CURRENT BRAZILIAN ATTITUDE, THERE IS LITTLE QUESTION IN MY OWN MIND BUT THAT THE GOB, AND PARTICULARLY THE FOREIGN MINISTRY (GOING BACK TO THE MEDICI GOVERNMENT) AND PERHAPS ALSO THE PRESIDENCY, HAVE BELIEVED THAT THE "SPECIAL" BRAZILIAN-US TIES WOULD OPERATE TO FORESTALL THE IMPOSITION OF DUTIES. THIS BELIEF HAS BEEN STRENGTHENED BY THE LANGUAGE EMPLOYED BY US IN THE "NEW DIALOGUE," ALTHOUGH THE GENERAL BRAZILIAN POSTURE TOWARD THE DIALOGUE IS ONE OF AWAITING CONCRETE RESULTS. THE BELIEF--OR HOPE--HAS BEEN ESPECIALLY NURTURED BY GOB CONFIDENCE IN THE STRENGTH, PRESTIGE, INFLUENCE AND POLITICAL SENSITIVITY OF SECRETARY KISSINGER--A CONFIDENCE ONLY TEMPORARILY QUALIFIED BY THE CIRCUMSTANCES OF THE GIBSON BARBOSA DEMARCHE IN MEXICO CITY AND THE SUBSEQUENT MARCH 9 ANNOUNCEMENT, WHICH AFER ALL WAS EXPLICITLY NOT INDICATIVE OF THE FINAL DECISION. THE SERIES OF SECRETARY-FOREIGN MINISTER LETTERS ON A VARIETY OF SUBJECTS HAVE CERTAINLY CONTRIBUTED TO THAT CONFIDENCE AND TO REINFORCEMENT OF A SENSE OF BRAZIL'S CONTINUING "SPECIALNESS."

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 BRASIL 05058 03 OF 05 101342Z

42
ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
----- 069152
P 101145Z JUL 74
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 4375

C O N F I D E N T I A L SECTION 3 OF 5 BRASILIA 5058

EXDIS

6. FROM THIS PERSPECTIVE OF THE RELATIONSHIP AND TAKING ALSO INTO ACCOUNT THE IMPORTANT US ECONOMIC STAKE IN

BRAZIL, THE GOB PARTICULARLY RESENTS ITS BEING "SINGLED OUT" FOR PUNISHMENT. BEYOND THIS IT SIMPLY DOES NOT ACKNOWLEDGE THE FORCE OF THE POINTS, MADE HERE REPEATEDLY BY THE EMBASSY AND BY HIGH-LEVEL REPRESENTATIVES FROM WASHINGTON AND BY WASHINGTON AUTHORITIES THAT THE LAW MUST BE APPLIED, THAT FOR US THE SITUATION IS ALSO POLITICAL BUT IN THE SENSE THAT THE APPLICATION OF THE LAW IS CRITICAL TO THE ACCEPTANCE BY CONGRESS OF THE COUNTERVAILING PROVISION OF THE TRA, THAT ITS APPLICATION MAY ALSO BE IMPORTANT TO THE VERY PASSAGE OF THE TRA, AND THAT APPROVAL OF THE TRA WILL REDOUND IN THE MIDDLE AND LONG TERM TO THE GREATER ADVANTAGE OF BRAZIL. TO THE GOB THESE ARE UNILATERAL ARGUMENTS SUBJECT TO BEING OVERCOME BY A SINGLE ACT OF "POLITICAL WILL" THAT WOULD ACKNOWLEDGE DEEPER AND BROADER CONCERNs. WHEN THE GOB IS TOLD THAT THE TREASURY HAS "VIRTUALLY" NO OR "LITTLE" DISCRETION, IT IS, I BELIEVE, CONFIRMED IN ITS BELIEF THAT IN THE CLASSIC LATIN AMERICAN PHRASE, BEGIN UNDERLINE IF THE USG REALLY WANTED TO END UNDERLINE, IT COULD UTILIZE THAT IMPLIED NARROW MARGIN TO CARRY OUT AN ACT OF "POLITICAL WILL."

7. GIVEN THIS BACKGROUND, I BELIEVE THAT THE GOB WILL PUSH THE "POLITICAL" LINE HARD UNLESS AND UNTIL IT IS CONVINCED, PROBABLY BY A LETTER FROM THE SECRETARY THAT ITS HIGH-LEVEL APPEALS HAVE BEEN TURNED DOWN. (I DO NOT RPT NOT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 05058 03 OF 05 101342Z

BELIEVE THAT PRESIDENT GEISEL WILL ADDRESS PRESIDENT NIXON FOR FEAR OF AN EMBARRASSING FAILURE.) ONCE THE GOB DECIDES THAT THE POLITICAL ROUTE HAS REACHED A DEAD END, WE MAY SEE AN EFFORT TO AVOID IMPOSITION OF DUTIES BY A FIRM OFFER TO SUBMIT LEGISLATION TO THE BRAZILIAN CONGRESS MODIFYING THE INCENTIVES REGIME, WITH THE EFFECTIVE DATE OF THE NEW "GATT-ABLE" SYSTEM NEGOTIABLE. USG AGREEMENT TO THIS ARRANGEMENTT WOULD CONSTITUTE FOR THE GOB THE ACT OF POLITICAL WILL IT SEEKS. IF SUCH A PROPOSAL WERE ACCEPTABLE WITHIN THE US LEGAL RESTRAINTS, TH EMBASSY WOULD BE PREPARED TO TRY TO MOVE THE GOB IN THIS DIRECTION, SHOULD WASHINGTON DESIRE.

8. IF, AS I HAVE ASSUMED, THE APPLICATION OF DUTIES IS NOW FOREGONE, WHAT WILL THE REACTIONS IN BRAZIL BE? OVER THE LONG TERM, I ESTIMATE THAT THE GOB WOULD MODIFY ITS SYSTEM OF INCENTIVES TO MAKE THEM COMPATIBLE WITH GATT, MEANWHILE INTENSIFYING THEIR EFFORTS TO MARSHAL LDC SUPPORT WITHIN GATT AND IN THE MTN FOR A CODE OF CONDUCT FOR INCENTIVES AND COUNTERVAILIN DUTIES THAT WOULD PROVIDE THE WIDEST POSSIBLE MARGIN OF PREFERENTIALITY FOR THE LDC'S.

9. THE IMMEDIATE REACTION, HOWEVER, WOULD BE SHARP AND UNCOMFORTABLE. IN THE FIRST PLACE, THERE WOULD ALMOST CERTAINLY BE UNANNOUNCED BUT SIGNIFICANT RETALIATION AGAINST OUR ECONOMIC INTERESTS, PRINCIPALLY OUR TRADE. WE MAY ALREADY BE SEEING THE FORESHADOWING OF THIS, AS A MEANS OF PRESSURE BEFORE THE FINAL COUNTERVAILING DECISION IS TAKEN, IN THE REFERENCE TO THE USSR AS A SOURCE OF THE ITAIPU TURBINES (BRASILIA 4582), IN THE LOSS BY PULLMAN STANDARD OF A VERY LARGE ROLLING-STOCK ORDER TO ROMANIA AND YUGOSLAVIA (RIO 2396 AND 2343) AND IN THE CONTROLS ESTABLISHED ON THE IMPORT OF GENERAL AVIATION EQUIPMENT OF WHICH THE US IS BY FAR THE LARGEST EXPORTER (TO SUCH AN EXTENT THAT BRAZIL IS THE LARGEST MARKET FOR OUR GENERAL AVIATION INDUSTRY) (BRASILIA 4685). I DO NOT MEAN THE GOB WOULD BE SO WORKED UP OR GO SO FAR AS TO CUT OFF ITS NOSE BY RESORTING TO MEASURES THAT WOULD DAMAGE THE BRAZILIAN ECONOMY. I DO MEAN THAT IN TOSS-UP OR CLOSE TO TOSS-UP SITUATIONS THE GOB WOULD MAKE SURE THAT WE DO NOT GET THE BUSINESS. THIS CAN VERY WELL ADD UP TO A CONSIDERABLE AMOUNT OF US EXPORTS.

CONFIDENTIAL

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PAGE 03 BRASIL 05058 03 OF 05 101342Z

IF THE GOB DECIDED TO BE BLATANT ABOUT THE RETALIATION, IT HAS A CONVENIENT COVER IN THE FACT THAT BY THE END OF 1974 THE FAVORABLE US BALANCE OF TRADE WITH BRAZIL MAY GO OVER THE IMPRESSIVE--AND, IN THE CIRCUMSTANCES, POLITICALLY EXPLOITABLE--FIGURE OF \$1 BILLION.

CONFIDENTIAL

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PAGE 01 BRASIL 05058 04 OF 05 101436Z

42

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
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P 101145Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4376

C O N F I D E N T I A L SECTION 4 OF 5 BRASILIA 5058

EXDIS

10. IN ADDITION TO ACTION AGAINST OUR ECONOMIC INTERESTS,
I WOULD EXPECT THAT THERE WOULD BE A DEFINITE CHILL FOR
SOME TIME IN OUR BROAD POLITICAL RELATIONS. I JUDGE THAT
THERE WOULD BE AN IMMEDIATE, STRONG AND REASONABLY PROLONGED
OUTBURST OF PRESS CRITICISM, WITH GOB STIMULUS
AVAILABLE BUT PROBABLY NOT NECESSARY, OF THE GAP BETWEEN
OUR WORDS AND OUR DEEDS AND OF THE SINCERITY AND REALISM
OF THE NEW DIALOGUE. THESE PUBLIC ATTACKS, WHICH WILL GIVE
A FILLIP TO LATENT BUT STILL STRONG ECONOMIC NATIONALISM,
MAY INCLUDE PUBLICATION OF THE JUNE 25 NOTE, WHICH HAS
CHARACTERISTICS OF A DOCUMENT INTENDED TO SHOW HOW
VIGOROUSLY THE GEISEL GOVERNMENT HAS DEFENDED BRAZILIAN
INTERESTS. ON THE OFFICIAL SIDE, THERE WOULD BE INDIGNATION
AND QUESTIONING OF THE UTILITY OF THE "SPECIAL RELATIONSHIP."
THERE WOULD BE IN SOME SECTORS A FEELING THAT THE
US HAD TURNED ON ITS CLOSEST LA FRIEND JUST WHEN IT WAS
ENCOUNTERING DIFFICULTIES. THERE WOULD BE AT LEAST THE
TEMPTATION TO USE THE US AS A SCAPEGOAT FOR THOSE DIFFICULTIES.
SOME OF THIS REACTION WOULD BE GENUINE AND ENDURING; SOME
OF IT TRANSIENT. I WOULD GUESS THAT PRESIDENT GEISEL'S
REACTION WOULD BE OF THE FORMER KIND. BRAZIL'S PARTICIPATION
IN THE DIALOGUE WOULD BE AFFECTED AND SKEPTICISM ABOUT
ITS REAL CONTENT WOULD GROW, BUT I DO NOT RPT NOT THINK
THAT THIS "ACCIDENT OF THE ROAD" (TO US A PHRASE OF SILVEIRA'S,
TAKEN ONLY SLIGHTLY OUT OF CONTEXT) WOULD PERSIST
FOR LONG AS A BLOCK TO CONTINUED BRAZILIAN
EXPLORATION OF THE ADVANTAGES TO IT OF THE DIALOGUE.
I DO NOT DOUBT THAT IN INTERNATIONAL FORUMS
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PAGE 02 BRASIL 05058 04 OF 05 101436Z

IN GENERAL BRAZILIAN RESPONSIVENESS TO OUR POSITIONS WILL
DECLINE FURTHER AND THAT THERE WILL BE SHARP CRITICISM OF
OUR ACTION IN THE ECONOMIC ORGANIZATIONS.

11. ONE OF THE MOST NEGATIVE SHORT-TERM EFFECTS FROM MY
POINT OF VIEW WILL BE BRAZILIAN DISAPPOINTMENT THAT SECRETARY
KISSINGER HAD BEEN UNABLE TO CARRY THE DAY. THE GOB,
LIKE MOST GOVERNMENTS IN THE HEMISPHERE, HAS BELIEVED,
DESPITE ITS WAIT-AND-SEE ATTITUDE, THAT THE DEVOTION BY THE
SECRETARY OF HIS QUALITIES AND PRESTIGE TO US RELATIONS
WITH THE COUNTRIES OF THE HEMISPHERE WOULD MEAN A MORE
SYMPATHETIC AND, MUCH MORE IMPORTANT, A MORE EFFECTIVE
ADDRESS TO THE CONFLICTS BETWEEN US DOMESTIC CONCERNs AND
THE DEVELOPMENT NEEDS OF LATIN AMERICA, PARTICULARLY IMPROVED
ACCESS TO THE US MARKET. I SUPPOSE, TO BE PHILOSOPHICAL
ABOUT IT, THAT THE THWARTING OF THIS HOPE WOULD NOT BE
ALL BAD IF IT WERE TO LEAD TO GREATER UNDERSTANDING OF
THE FORCE OF OUR DOMESTIC INTERESTS AND THE ROLE OF

CONGRESS WHERE THEY ARE EXPRESSED.

12. IN SUMMING UP THIS ARRAY OF BRAZILIAN REACTIONS, I WOULD SAY THAT TAKEN ALL TOGETHER, THEY WILL CONSTITUTE APPRECIABLE COSTS TO OUR ECONOMIC AND POLITICAL INTERESTS. I CANNOT SAY, HOWEVER, THAT THEY WILL BE SO SERIOUS AS TO BE DANGEROUSLY IRREVERSIBLE.

13. THEIR SEVERITY CAN BE MITIGATED, MOREOVER, BY THE MANNER IN WHICH THE DECISION TO COUNTERVAIL IS APPLIED AND ANNOUNCED. OBVIOUSLY, THE LOWER THE RATE OF DUTY THE LESS HARMFUL IT WILL BE TO BRAZILIAN SHOE EXPORTS AND THEREFORE THE MORE CONTAINED WILL BE THE GOB'S REACTION. THE EMBASSY BELIEVES THAT, IF THE LEGAL AND PRACTICAL ADMINISTRATION OF THE LEGISLATION WERE TO PERMIT A DUTY OF LESS THAN 10 PERCENT, THE REACTIONS WOULD BE CONSIDERABLY LESS STRIDENT AND COSTLY TO OUR INTERESTS THAN THOSE PRODUCED BY A RATE HIGHER THAN 10 PERCENT. IF, HOWEVER, THE APPLICATION OF EVEN RELATIVELY LOW COUNTERVAILING DUTIES ON SHOES WERE TO UNLEASH A SERIES OF COMPLAINTS BY US MANUFACTURERS AGAINST OTHER BRAZILIAN EXPORTS AND THESE COMPLAINTS WERE TO RESULT INEXORABLY IN COUNTERVAILING ACTION, THE BASIC GOB FEAR WOULD BE SEVERE. THEREFORE,

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 05058 04 OF 05 101436Z

TO ATTENUATE THE NEGATIVE RESPONSES TO ANY COUNTERVAILING DUTY, THIS SEQUENCE COULD, I STRONGLY HOPE, BE AVOIDED, ANOTHER DEVICE FOR REDUCING THE IMPACT OF THE ASSESSMENT OF DUTIES AND THEREFORE THE SCOPE AND STRENGTH OF THE REACTIONS WOULD BE TO ANNOUNCE THE ACTION AGAINST BRAZIL IN A PACKAGE WITH SIMILAR ACTIONS AGAINST OTHER SHOE-EXPORTING COUNTRIES NOW SUBJECT TO INVESTIGATION. ALTHOUGH THIS WOULD CREATE THE POSSIBILITY OF ALLIANCES BETWEEN BRAZIL AND THE OTHER COUNTRIES Affected IN INTERNATIONAL ORGANIZATIONS, THE INCENTIVE FOR THAT KIND OF ACTION ALREADY EXISTS ANYWAY. I BELIEVE THAT IN THE NET THE PACKAGING APPROACH WOULD BE HELPFUL HERE BECAUSE IT WOULD DEPRIVE THE GOB OF THE CLAIM THAT BRAZIL WAS BEING PICKED ON AND WOULD DEMONSTRATE THAT THE PROBLEM IS A GENERAL ONE FOR US. FINALLY, THE TONE OF THE ANNOUNCEMENT COULD HAVE SOME EFFECT. AN ANNOUNCEMENT THAT GOES BEYOND A BAREBONES, TECHNICAL STATEMENT AND INCORPORATES SOME NOTE OF REGRETTABLE NECESSITY AND SOME REFERENCE TO THE POLITICAL CONTEXT--IF NECESSARY ON BACKGROUND-- WOULD BE DEFINITELY HELPFUL HERE.

CONFIDENTIAL

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PAGE 01 BRASIL 05058 05 OF 05 101406Z

41

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
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P 101145Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4377

C O N F I D E N T I A L SECTION 5 OF 5 BRASILIA 5058

EXDIS

14. ACTION REQUESTED: AS AN IMMEDIATE MATTER, (SEE THE LAST PART OF PARA 7), I REQUEST THAT THE WASHINGTON AGENCIES DETERMINE (A) WHETHER BRAZILIAN SUBMISSION OF LEGISLATION MODIFYING THE INCENTIVES REGIME, OR A FIRM COMMITMENT TO PRESENT SUCH LEGISLATION, HOLDS PROMISE AS A MEANS OF AVOIDING COUNTERVAILING ACTION: AND (B) IF THE DETERMINATION IS FAVORABLE, WHETHER THE AGENCIES WISH THE EMBASSY TO TAKE ACTION IN THIS DIRECTION. IF IT IS UNFAVORABLE, I REQUEST THAT, INFOFAR AS THE LEGAL AND POLITICAL REALITIES PERMIT, THE SUGGESTIONS IN THE PRECEDING PARAGRAPH BE FOLLOWED.

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